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ANNUAL REPORT FOR 1966

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INCOME DISABILITY AND REINSURANCE COMPANY OF CANADA



REPORT TO THE SHAREHOLDERS



It is my pleasure again, on behalf of the Board of Directors and management of your Company, to submit our sixth Annual Report.

Total income at December 31, 1964, end of our first four years, amounted to \$210,000. In 1966 we exceeded \$1,000,000 with over 10,000 policyholders. We have now finally absorbed the many high costs of getting a company organized. In addition, our renewal income is becoming more seasoned each year. Like all new companies, we had large initial costs in writing new policies, but the profit from old business should, along with reasonable claims experience, enable us to enjoy overall profits in the future. In 1966 this reasoning was confirmed and a profit of \$121,448 was earned after writing off 100% of finders' fees, all increases in agents' advances against future commissions, and the entire balance of furnishings and equipment totalling \$42,347. This compared to a loss in 1965 of \$162,307.

You will note that other operating expenses in 1966 amount to \$346,523 compared with \$347,360 for 1965. The 1966 expenses however include part of the above write-offs of furniture, fixtures and finders' fees amount to \$23,892 as compared to similar write-offs of \$4,331 in 1965.

Assets now total \$2,790,627 with liabilities of \$485,542. This ratio is several times greater than the requirement set by government insurance departments for Canadian and foreign companies.

Insurance companies are required by law to make charges against either operations or surplus for items such as actuarial reserves and all fixed assets such as furniture and fixtures. The effect of these charges is to reduce the book value of the Company. In addition, a valuable asset such as business in force is not allowed to be shown on the financial statements. As a result of these legal requirements shareholders are unable to appraise the value of their shares. Therefore, you may be interested in knowing that after the deduction of those items noted above, and without including any value for business in force, the shares of your Company have a book value of \$9.39 each.

In 1965 we applied for a Federal license to reinsure life insurance as well as accident and health. Since that date Income Life and your Company have made a clean separation. While we are proud of our position as a leader in the disability income field, we must recognize the challenge of

Canada's financial future which, more than ever, strongly favours diversification. In view of your Company's strong financial base, along with seasoned personnel and mature business in force, it is now evident that your Company can go a step farther by moving into the direct sale of life insurance. To this end your management has decided to do so and it is fully expected that sensible expansion can be achieved without incurring losses such as could be expected in the case of a fledgling and untried company.

Your management has also taken positive steps to open a marketing office in the new Richmond-Adelaide Centre in Toronto. This office will service our growing Toronto business and enhance our competitive position. Administration will be centered in the Terminal Towers office building in Hamilton.

In order to accurately project ourselves in our new role and to satisfy legal requirements, we propose to change the name of the Company to Executive Life and Disability Company of Canada.

We have taken positive steps to develop new concepts and have under contract leading firms of professional consultants to assist us in marketing these products. A feasibility study indicates positive and favourable response to our new thinking.

We have engaged the services of Bolton Tremblay & Co., nationally known specialists in the field of institutional investments, to assist us in a continuing capacity in the management of our portfolio.

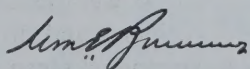
The Carter Commission recommendations, if implemented, are most favourable to the sale of disability income insurance. The deductibility of premiums will be enjoyed by policyholders, and the taxing of benefits will create an obvious need for increased coverage to compensate for income tax payable on the benefit.

The directors and management are pleased with the Company's steady growth and its attainment of maturity. We are grateful that our strong financial position and convenient size affords us the luxury of flexibility at a time when the need for modernization seems greatest. Such notable happenings as the Carter Royal Commission report on taxation, amendments to The Bank Act and the Canada Pension Plan, demand that we examine ourselves in the light of changing economic conditions.

Our industry has been established for more than a century and has always thrived on change. For example, one-half of the business in force today was purchased within the last 10 years.

We look forward to a very interesting future for our business in Canada.

Yours sincerely,



Wm. E. Brunning, President.



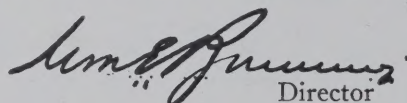
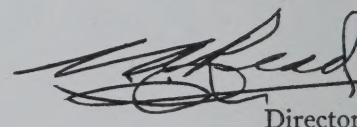
INCOME DISABILITY AND RE

BALANCE SHEET

ASSETS

	1966	1965
Investments—		
Bonds and debentures (note 1)	\$ 779,816	\$ 670,316
Demand loan secured by notes	125,000	—
Mortgages	1,623,747	1,721,398
Common shares (note 1)	77,200	77,200
	<hr/>	<hr/>
	2,605,763	2,468,914
Interest due and accrued	19,249	16,002
	<hr/>	<hr/>
	2,625,012	2,484,916
Cash on hand and in banks	106,892	7,941
Outstanding premiums receivable	25,880	47,300
Amounts due from reinsurers	28,421	1,553
Deposits	510	—
Cash surrender value of life insurance policy	3,912	—
Deferred mortgage finders' fees, less amounts written off (note 5)	—	15,585
	<hr/>	<hr/>
	\$ 2,790,627	\$ 2,557,295

SIGNED ON BEHALF OF THE BOARD


Director
Director

NOTES TO FINANCIAL STATEMENTS AS AT DECEMBER 31, 1966

1. BONDS AND COMMON SHARES

Bonds are carried at cost and common shares at book value which is less than cost and the aggregate is \$91,455 more than quoted market values at December 31, 1966. In order to provide for this deficiency the company has set up an investment reserve equal to this amount and it is \$50,505 more than the amount that would have been required by the Department of Insurance of the Province of Ontario.

2. PROVISION FOR UNEARNED PREMIUMS

The provision for unearned premiums has been reduced by the prepaid portion of reinsurance contracts ceded. In previous years the provision was reduced by only that portion of the prepaid reinsurance contract that related to the period covered by the current premiums in force. If this practice had been followed during 1965 the net income would have increased by \$8,209 and the net income for 1966 would have decreased by a similar amount.

3. SHARE PURCHASE WARRANTS

153,720 share purchase warrants are outstanding and must be exercised on or before December 31, 1975, at the following prices per share:-

- \$12.00 until December 31, 1970
- \$14.00 thereafter and until December 31, 1972
- \$16.00 thereafter and until December 31, 1975

Included in the above are 15,000 share purchase warrants issued since the date of the prospectus through the cancellation of 15,000 options to purchase shares.

4. OPTIONS TO PURCHASE SHARES

There are 85,000 shares reserved for options outstanding. All options must be exercised at a price per share of the greater of \$7.50 or 85% of the market value upon certain dates specified by the Board of Directors. The options may be earned or granted by a formula established by the Board. Of the options outstanding there are options to purchase 83,750 shares allocated to sales personnel, agents, general agents and other company personnel and options to purchase 1,250 shares allocated to certain individuals in connection with special services performed on behalf of the company. Options to purchase 4,950 shares have been earned by sales personnel, agents, general agents and other company personnel and options to purchase 1,250 shares have been granted to certain other individuals. None of the options to purchase 85,000 shares have been exercised.

5. FINDERS' FEES

During the year finders' fees amounting to \$15,585 were charged to investment income. This is inconsistent with 1965 during which \$2,655 was charged to operations. If the same practice had been followed during 1966 \$3,480 would have been charged to operations.

INSURANCE COMPANY OF CANADA

AT DECEMBER 31, 1966

LIABILITIES, CAPITAL AND SURPLUS

	1966	1965
Provision for unearned premiums (note 2)	\$ 80,744	\$ 56,273
Provision for unpaid and unreported claims	169,917	158,245
Provision for contingencies	89,311	18,627
Morbidity fluctuation reserve	19,600	—
Investment reserve (note 1)	91,455	—
Deposit premiums pending policy issue	7,814	6,509
Premium taxes payable	14,175	10,414
Other liabilities	12,526	16,447
	<u>485,542</u>	<u>266,515</u>
Capital and surplus (notes 3 and 4)		
Capital stock—Authorized 1,000,000 shares of \$5 00 par value each		
—Issued 245,420 shares	1,227,100	1,227,100
Surplus	1,077,985	1,063,680
	<u>2,305,085</u>	<u>2,290,780</u>
	<u>\$ 2,790,627</u>	<u>\$ 2,557,295</u>

INCOME DISABILITY AND REINSURANCE COMPANY OF CANADA CERTIFICATE

I certify, as of December 31, 1966, that the present value of claims payable by instalments not yet due was \$99,865.00; that the morbidity fluctuation reserve was \$19,600.00; that the provision for unreported claims was \$56,114.00; that the provision for claim fluctuation contingency reserves was \$13,937.00; that the provision for level premiums was \$3,183.00; that the provision for prospective retroactive premium adjustments was \$86,128.00; and that these are proper and sufficient to cover the liabilities of the Company in respect to the several items to which they pertain as of December 31, 1966.

J. B. PATTERSON,

Fellow of the Society of Actuaries,

Fellow of the Canadian Institute of Actuaries.

February 8, 1967

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Income Disability and Reinsurance Company of Canada as at December 31, 1966, and the related summaries of operations and surplus for the year ended on that date, and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of the accounting records as we considered necessary in the circumstances.

We have accepted the certification by the actuary of the company for the claims reserves and other actuarial liabilities.

Subject to the qualification in the preceding paragraph the accompanying balance sheet and related summaries of operations and surplus, when read in conjunction with the notes thereto, present fairly the financial position of the company as at December 31, 1966, in accordance with accounting practices appropriate to the insurance laws of the Province of Ontario, applied on a basis consistent with that of the preceding year except as referred to in Notes 2 and 5 with which we concur.

MCDONALD, CURRIE & CO.

Chartered Accountants.

Hamilton, February 2, 1967



SUMMARY OF SURPLUS

INCOME DISABILITY AND REINSURANCE COMPANY OF CANADA SUMMARY OF SURPLUS

For the Year Ended December 31, 1966

	1966	1965
SURPLUS—BEGINNING OF YEAR	\$ 1,063,680	\$ 737
Add: Net income (loss) for the year	121,448	(162,307)
Surplus arising from the premium on the issue of 200,100 shares	—	1,225,250
Increase in cash surrender value of life insurance policy (not previously recorded)	3,912	—
	<u>1,189,040</u>	<u>1,063,680</u>
Less: Appropriations—		
Investment reserve	91,455	—
Morbidity fluctuation reserve	19,600	—
	<u>111,055</u>	<u>—</u>
SURPLUS—END OF YEAR	<u>\$ 1,077,985</u>	<u>\$ 1,063,680</u>

SUMMARY OF OPERATIONS

INCOME DISABILITY AND REINSURANCE COMPANY OF CANADA SUMMARY OF OPERATIONS

For the Year Ended December 31, 1966

	1966	1965
Premium income	\$ 912,526	\$ 658,954
Net investment income	137,302	92,610
	<u>1,049,828</u>	<u>751,564</u>
Net claims paid	317,605	217,957
Increase in claims reserve	11,672	130,684
Increase in unearned premium reserve	24,470	6,868
Increase in other special reserves	70,684	3,940
Commissions to agents	116,682	99,737
Increase in agents' balances	11,086	91,633
Agents' balances written off	11,039	—
Premium taxes	17,041	13,019
Other taxes, licenses and fees	1,578	2,673
Other operating expenses	346,523	347,360
	<u>928,380</u>	<u>913,871</u>
Net income (loss) for the year	<u>\$ 121,448</u>	<u>\$ (162,307)</u>



DIRECTORS

MR. WM. E. BRUNNING
President, Income Disability and Reinsurance Company of Canada

MR. T. A. D. HARRIOTT
President, Harriott & Associates Ltd., Winnipeg

DR. J. R. IBBERSON
Executive Medical Director, Charles E. Frosst & Co., Montreal

MR. J. S. FORSYTH
Director, Income Disability and Reinsurance Company of Canada

MR. WM. R. LATIMER, Q.C.
Partner, McCarthy & McCarthy, Toronto

MR. C. A. READ, C.A.
Treasurer, Income Disability and Reinsurance Company of Canada

MR. B. ROSENBLATT
President, Tor-Mon Investments Limited

MR. D. G. ROSS
President, Ross, Knowles & Co. Ltd., Toronto

MR. H. SOULE, Q.C.
President, Hamilton Trust and Savings Corporation

MR. E. D. MARCHANT, C.A.
Chartered Accountant

WILLIAM E. BRUNNING, *President*

CHARLES A. READ, C.A., *Treasurer*

CHARLES P. FLOOD, *Secretary & Underwriting Executive*

ERNEST DODD, C.A., *Comptroller*

OFFICERS

